

Evaluation of Decentralization Policy for Regional Development

Review of Independence Financial Indicators

Study Case in Wonogiri, Central Java, Indonesia

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Abstract— Development in economics based on decentralization in Indonesia is a strategic move by the Indonesian government currently realized by regional autonomy. The purpose of the implementation of regional autonomy and fiscal decentralization according to Law no. 32 of 2005 is to increase the independence and reduce fiscal dependence of local governments to the central government. Wonogiri is a district in Central Java which has revenues larger than the target area (BPS 2012). But we need to prove whether Wonogiri has financial independent or not from this reasearch. This method of research is use independent financial indicator with four tools of mesurement. We use the secunder data from Revenue Board of Wonogiri Government start form 2008-2012. This goal of this research is founding the degre of dependence of distric to central goverment in decentralization era. This research can be used by goverment to make evaluation of decentralization policy.

Keywords—decentralization, financial, otonomy policy, dependence financial.

I. INTRODUCTION

Development in economics based on decentralization in Indonesia is a strategic move by the Indonesian government currently realized by regional autonomy. The purpose of the implementation of regional autonomy and fiscal decentralization according to Law no. 32 of 2005 is to increase the independence and reduce fiscal dependence of local governments to the central government.

In regional autonomy, there are two aspects of financial performance that are required to be better than before decentralization. The first aspect is that the area was given the authority to take care of financing a major force in the region with the ability Revenue (Fiscal Decentralization). The second aspect that is in the area of expenditure management, financial management areas that should be more accountable and transparent would require regions to be more efficient and effective in local spending. Both aspects can be termed as a Financing Reform. So, districts are required to increase community participation in development effectively also efficiently. Maximizing the potential of the region is the main thing in the success of this policy.

In practice, this policy still requires the central government to support the policy runs smoothly. Assistance in the form of funds transfer center. However, in reality these funds is greater than revenue (PAD). Therefore, the region is likely to depend on central funding. In general Budget (Revenue and Expenditure) an area dominated by the central government contributions and other donations, which is regulated by legislation, which is about 75% of total revenues (Haryati, 2002: 3)

One of the main features of the area are able to implement regional autonomy by Yuliati (2001:22) is the financial capacity to fund regional governance to the level of dependence on the central government has become smaller and the proportion is expected that revenue (PAD) should be the biggest part mobilizing funds in local governance

Wonogiri is a district in Central Java which has revenues larger than the target area (BPS 2012). But we need to prove whether Wonogiri has financial independent or not from this reasearch. Therefore, the authors formulate the problem as to whether the policy of decentralization and local autonomy in the district wonogiri effectivly seen by its Indicators of financial independence.

II. METHODS

A. Independence Financial Indicators

In this study will be disclosed 4 analytical tools used to measure the degree of independence of Regions Financial, namely: (i) Analysis of Fiscal Decentralization Degrees; (ii) Fiscal Capacity Analysis, (iii) Analysis of Fiscal Effort, and (iv) Loan Capability Analysis. With the case in the Wonogiri district of Central Java province, the formulation of the four models above, more can be explained as follows:

1) Fiscal Decentralization Degree

Fiscal Decentralization degrees between central and local governments use the following measurement (SukantoReksohadiprodjo,2001:155):

$$\frac{PAD}{TDP} \times 100\%$$

$$\frac{BHPBP}{TDP} \times 100\%$$

$$\frac{SBD}{TDP} \times 100\%$$

$$TPD = PAD + BHPBP + SBD$$

2) Fiscal Capacity

Fiskal Capacity's formula (Sukanto Reksohadiprodjo, 2001 : 156) :

KaFKK wonogiri=

$$\frac{\text{Total of PDRB/total of poor people in wonogiri}}{\text{SKaFP central java}}$$

SKaFP central java =

$$\frac{\text{Total of PDRB/ total of poor people in wonogiri}}{\text{Total of city}}$$

Note:

- SKaFK_{Jateng} : mean of Fiscal Capacity standart region/city in central java area
- KaFkK_{Wonogiri} : Kapasitas Fiskal capacity in Wonogiri

3) Tax Effort

Fiscal potition is counted by elasticity of region revenue (PAD) (Abdul Halim, 2001 :105):

$$\text{Elasticity PAD} = \frac{\% \text{growth PAD}}{\% \text{Pgrowth PDRB}} \times 100\%$$

4) Debt Service Coverage Ratio

In accordance with the explanation of Article 12, subparagraph (b) of Regulation (government regulation) of the Republic of Indonesia Number 54 Year 2005 on Regional Borrowing, DCSR formulated as follows:

$$DCSR = \frac{(PAD + [DBH - DBHDR] + DAU) - \text{mandatory spending}}{\text{principal installments} + \text{interest on loans} + \text{other costs}} \geq 2,5$$

a.

Annotation:

- DCSR : Debt Service Coverage Ratio
- PAD : Regional Revenue (PAD)
- DAU : General Allocation Fund
- DBH : Revenue Sharing
- DBHDR : Revenue sharing Reboisatation funds

III. RESULTS AND DISCUSSION

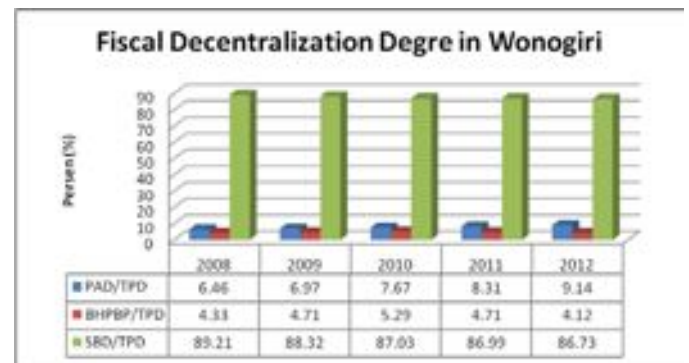


Fig. 1. Fiscal Decentralization Degree in Wonogiri

Calculation of Degree of Fiscal Decentralization in Wonogiri can be seen that the ratio of local revenue (PAD) of the total revenues (TPD) from 2008-2012 always increase 6.46 in 2008 to 9.14% in 2012 . Further to the ratio of Revenue and Non-Tax Tax (BHPBP) to Total Revenue (TPD) from 2008-2010 has increased, which in 2008 amounted to 4.33% in 2008, 4.71% in 2009 and 5, 29% in 2010. In contrast to the year 2011-2012 has decreased from 4.71% in 2011 to 4.12% in 2012. As for the Regional Assistance Contribution ratio (SBD) to Total Revenue (TPD) has decreased from 2008-2012, amounting to 89.21% in 2008 to 86.73% in 2012.

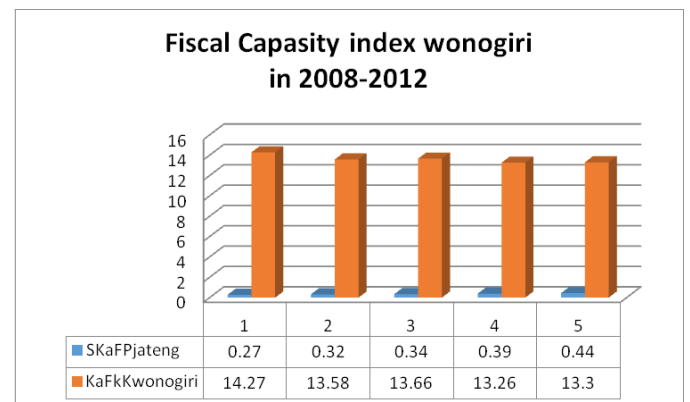


Fig. 2. Fiscal Capacity Index in Wonogiri

From the analysis of the amount of Fiscal Capacity Index in Wonogiri area during the years 2008-2012 showed that Wonogiri have greater fiscal capacity index compared to Fiscal Capacity Index province of Central Java. Fiscal Capacity Index in Wonogiri area from 2008 to 2012 tended to decrease. While the Fiscal Capacity Index of Central Java province as a whole has increased. Fiscal Capacity Index in Wonogiri area in 2009 was 13.66 times, in 2010 was 13.26 times, and in 2011 is 13.3 times.

TABLE I. THE MAGNITUDE AND THE AVERAGE FISCAL EFFORT IN WONOGIRI

Period	2009	2010	2011	2012
Elasticity PAD	0,65	0,79	2,87	3,01

From the analysis of the magnitude and the average fiscal effort in Wonogiri, it can be concluded that the elasticity of revenue to GDP in the year 2009 - 2012 average is positive, which means that if there is rise in GDP have an impact on the amount of revenue increase.

From the above table, it can be seen that, in the year 2009-2012 has Wonogiri Fiscal Capacity in Fiscal capacity is very high category indicated by the amount of $KF > 2$. In 2012 at Wonogiri district also has high fiscal capacity category with the amount of KF 1.81.

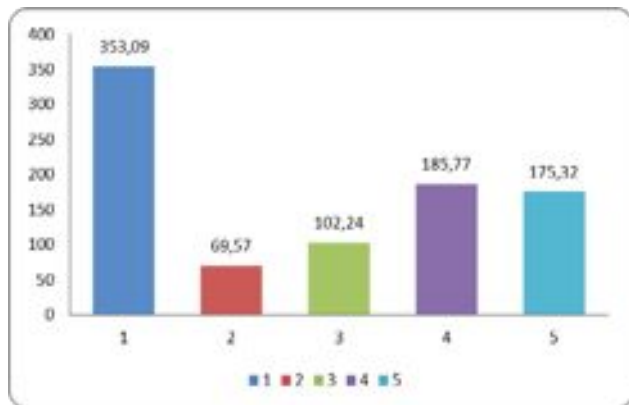


Fig. 3. Debt Service Coverage Ration in Wonogiri

From the analysis of DSCR (Debt Service Coverage Ratio) 2008-2012 results DSCR calculations show that the amount is more than 2.5. This indicates that in the year 2008-2012 in the area of Wonogiri lending capabilities still are in a condition that allows it to make loans. In other words the ability to repay the loan is still far from the minimum requirements stipulated in Government Regulation.

IV. CONCLUSION

From the analysis of the data from the Wonogiri district budget year 2009 - 2012 we can conclude that the District

Winton has increased both in terms of Total Revenue (TPD). Level of independence Wonogiri also experienced a significant increase this to some extent influenced by the high contribution of local tax. Besides, it is also influenced by tax sharing of provincial and other local governments, special autonomy and adjustment funds, financial assistance from other provinces or local governments, grants and emergency funds. Dependence on government is still high so decentralization and financial autonomy in the region have not been up run wonogiri district.

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